

Chapter 5

The Development of Entrepreneurship in Rural Areas

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The development of entrepreneurship can be a major means of fighting economic inertia in rural areas that are located far from the main industrial center of a country. The notion of “rural entrepreneurship” is not limited to agriculture and related activities such as food processing, but rather it covers industrial development in general. In addition, the concept is not restricted to villages but also pertains to small towns and surrounding areas. Broadly speaking, the concept relates to areas where industry and tourism are not developed. It is the aim of this chapter to present to the reader the strategies for spurring economic activity in such underdeveloped areas.

Promoting, encouraging, and supporting rural entrepreneurship should be a coordinated effort undertaken by the central government, municipality governments, and nongovernmental organizations. Such endeavors should (1) increase the number of enterprises and small businesses; (2) increase the volume of employment; (3) consolidate and expand already existing businesses; and (4) attract investment.

It is inevitable that supporting rural entrepreneurship requires considerable financial resources and substantial investment at the beginning of the development process. However, it is reasonable to expect that those investments will generate positive economic results as early as in the medium term. An increase in the number of enterprises

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and in the employment rate will spur demand, and local government will benefit from the increased tax base. These outcomes are relatively easy to measure. But there will also be indirect advantages, such as setting positive examples for the local business community, spreading good work practices, diffusing entrepreneurial values, improving the economic activity of the community, and creating the bottom-up support for further improvements and development.

Peculiarities of Economic Development in Rural Areas

Some of the characteristics of rural areas are conducive to investment and economic revival, others discourage potential investors and hinder economic progress.

Factors Unfavorable to Industrial Development

Low population density. Because of low population density, human settlements are far from one another, and communication is slow. The spread of information by word-of-mouth occurs significantly less than in larger communities, and the underdeveloped telecommunications infrastructure further hinders communication. Due to large distances between settlements, the transportation costs are higher than in urban centers (e.g., the cost of commuting to work). Low population density can, however, create a climate more conducive to personalized relations between potential investors and their customers.

Low demand per square kilometer. Market potential, which denotes the volume of goods sold in an area, is one of the basic measures used in marketing. High demand in a small geographic area sparks the development of shops and supermarkets. In this respect, rural areas are not attractive. However, low demand for goods does not affect the profitability of large warehouses that are designed to serve an entire region.

Large distances. As a result of low population density, human settlements are scattered over a large area. Large distances increase the cost of transportation and reduce the frequency of supply deliveries. The

latter negatively influences the liquidity of enterprises like retail units and wholesalers. The two factors combined cause the prices of goods to be higher than in cities.

Lack of an entrepreneurial tradition. Entrepreneurship means industriousness, coming up with new ideas and innovations, and actively trying to overcome obstacles and difficulties. These factors are found less often in rural areas as compared to cities where people display more industriousness and are more open minded and enterprising. The entrepreneurial tradition also covers such intangible aspects as the ability to establish business partnerships and sustain them, develop long-term bonds with business partners, and develop trust between suppliers and consumers. It must be stressed that in rural areas, it is necessary to be persevering and patient in order to develop positive entrepreneurial values.

Low level of education. The level of education can heavily influence a company's decision about where to invest. The relatively low level of education found in many rural areas is caused by an insufficient number of educational institutions, on one hand, and brain-drain to cities, on the other hand. As a result, it is difficult to find qualified experts in most fields. Additionally, low educational levels often force employers to educate potential employees. Further problems are posed by a lack of people proficient in foreign languages, as well as the fact that these people have a low level of modern market knowledge (in marketing and financial analysis) and lack the skills that can contribute to entrepreneurial activity. Paradoxically, a low level of education can turn out to be a beneficial factor for the community. Essentially, employers who are forced to educate locals end up investing in human capital, and investing in human capital brings positive results in the long run. Moreover, in rural areas such measures enhance loyalty toward the employer.

Lack of models for successful business ventures. Instances of successful business undertakings are an enormous encouragement for other people to do the same. It is important that potential businessmen can observe the growth of existing businesses and be in contact with their owners. In rural areas, however, such examples of successful

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undertakings are rare. Additionally, large distances between settlements hamper contact between people and slow the spread of news about the successes of others.

Problems with infrastructure. Underdeveloped infrastructure can scare off potential investors. Such a situation creates a need for local governments to adopt a flexible approach with regard to the development of infrastructure in rural areas.

Factors Favorable to Entrepreneurship and Investment in Rural Areas

Loyalty of employees. Because it is difficult to find a job and work alternatives are scarce, having a job is highly appreciated. Since people in rural areas have much more to lose if they are laid off, they tend to work harder and more efficiently. Moreover, rural inhabitants are generally more conservative, and as a result they hold authorities in higher esteem, an advantage for potential employers.

Lower crime rates. The safety of running a business is an important factor that investors take into consideration before making an investment decision. From this standpoint, rural areas are attractive as they have significantly lower crime rates compared to cities.

Ease of adopting new consumer behavioral patterns. Although entrepreneurial and market-oriented attitudes are slowly adopted by people in rural areas, it is not the case with consumer behavioral patterns. It has been observed that patterns reflecting the consumption of consumer goods are the same regardless of whether a person lives in a rural community or a large city. In both cases, their tastes are to a large extent shaped by television commercials.

Clean environment. Undisputedly, clean air, low noise levels, and unpolluted water are advantages. They encourage investments that require a clean environment, for example, in the electronics industry.

Easier control of employees. Interestingly enough, lower levels of education and a smaller number of work alternatives make it easier for employers to control workers. The workers may have less initiative than their colleagues in the cities, but they take more things for granted and do what they are told without questioning.

Lower prices of land. Lower land prices can attract investors willing to build an enterprise from scratch. Unfortunately, such cost savings are often outweighed by the necessity of investing in the development of infrastructure. However, low land prices make it feasible to build wide, comfortable driveways and spacious parking lots, almost unimaginable in large cities due to astronomical costs.

Lower wages. Because the cost of living is substantially lower in rural areas than elsewhere, wages can also be relatively lower. This in turn reduces costs for enterprises. In addition, fewer work alternatives reduce pressure on the management to increase wages.

Negligent role of trade unions. Although workers have a right to form trade unions, they seldom make use of that right in rural areas. As a result, trade unions are weak, and the pressure to solve problems in a manner that is favorable to workers but unfavorable to employers is low. This allows employers greater room to promote their own interests.

A Modern Approach toward Supporting Entrepreneurship in Rural Areas

There is a need to go beyond the existing patterns of supporting economic activity in rural areas that focus predominantly on agriculture and food processing. A modern approach recognizes that there is a huge potential for developing other industries that can take advantage of the human resources, land, and existing patterns of economic activity in rural areas.

A vital role in supporting entrepreneurship in rural areas lies in the hands of local governments. The more aware the local governments and the population are of the necessity to support entrepreneurship, the bigger the chance of success. The concrete results expected from supporting entrepreneurship are:

1. an increase in overall employment;
2. an increase in employment outside of agriculture;
3. an increase in demand;
4. an increase in the value of investments;

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5. a larger tax base and, as a result, an increase in the revenue collected by local authorities;
6. a diversification of economic activity and thus a lower dependence on market volatility;
7. a strengthening and an expansion of existing enterprises;
8. an increase in the number of investors;
9. an increase in the number of enterprises.

All of the above outcomes are easily measurable. Setting aims that are easy to measure is an important part of a modern approach toward supporting entrepreneurship in rural areas.

The Obligations of the Central Government toward Rural Areas

Certain policies supported by the central government with regard to rural areas can significantly contribute to their development. It is the responsibility of the central government to allow for the equal development of all regions of a country by creating opportunities for underdeveloped areas. A viable policy includes decentralizing and providing local governments with more independence. This process means giving up certain rights that the central government enjoyed under the centrally planned economy.

Another recommendation involves decentralizing the tax system so that taxes can be spent in the areas where they have been collected. Such a policy will improve the financial position of municipalities. It should be kept in mind that municipalities are better prepared than the central government to tackle local issues. The economic viability of the above solutions has been proven in Germany and the United States, where most financial resources allocated for the support of local entrepreneurship are administered by the governments of Lands and states, respectively.

Scarce financial resources allocated for the support of regional entrepreneurship are frequently managed through various support programs. However, it is often the case that there are too many programs,

and, as a result, they are small and weak. It would be better if there were a handful of strong and powerful schemes that were able to generate substantial effects. The focus of support programs should be divided between agriculture and food processing, on one hand, and other light industries, on the other. (It has been observed that each workplace created in light industry creates additional workplaces in cooperating enterprises, for example, in the trade and service sectors.) It is recommended that support programs focus their efforts on the following areas:

1. providing low interest credits for undertakings that create new jobs;
2. supplying consulting services;
3. educating employees of enterprises by teaching them new skills, increasing their qualifications, and organizing courses on modern market disciplines—especially marketing;
4. providing financial assistance to transfer experienced managers from urban centers to rural areas;
5. helping enterprises regain solvency and financial liquidity.

These measures are by no means the only way support programs can contribute to spurring economic growth in rural areas. They are, however, the most important.

Because funds are scarce, it is essential to manage them with prudence. This is especially important since only a limited number of enterprises can be covered by financial assistance and restructuring programs. Although control over funds already allocated to an enterprise raises questions about the scope of the government's reach, such control is indispensable.

Another important issue is the choice of enterprises that are going to be covered by financial assistance programs. It is important, at least in the beginning, to choose enterprises that show signs of good management and have significant growth potential. Such enterprises can be expected to achieve positive results fairly quickly and will provide invaluable examples for other enterprises. Assistance programs are usually organized by agencies of the central government. However, local

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authorities can actively participate in the programs by means of managing the funds, organizing the framework of the assistance, and choosing the recipients.

Educational Programs

The quality of human resources is one of the features that makes an area attractive to investors. Unfortunately, it is likely that investments targeted at the industrial development of rural areas will be insufficient for a long time. Investments in education are, however, inexpensive and in the long run can significantly contribute to the economic development of the community. Foreign-language courses are an important part of an educational program—the knowledge of foreign languages creates a favorable climate for foreign investors.

Support for Entrepreneurship from Local Government

Supporting Entrepreneurship as a Part of Competition for Financial Resources

Local government is the chief institution managing local resources. These resources include the property of the municipality as well as individual private property. A prudent and appropriate approach toward both types of property will increase the attractiveness of a given area. Therefore, it is crucial that the resources of a given area are well used and privatized in a manner that promotes development in the local community.

Creating a Good Image in the Mass Media

A potential investor will be tempted to invest in a given area if he or she believes that the area has a tradition of business and entrepreneurship. Such a belief will often be shaped by the first impression obtained of the area—the quality of housing, roads, bus stops, tidiness, cleanliness, etc. In addition, the image potential investors have of a community is

frequently influenced by the ability of the inhabitants to come together to pursue a common cause. This refers not only to economic activities but also to sports, culture, and music.

The municipality should try to create and maintain a positive image in the mass media. This can be achieved by staying in touch with representatives of radio, television, and print journalism. The mass media should be invited to important occasions, such as the opening ceremony of a new enterprise or the celebration of the success of a local folklore group in a national folklore festival. On the other hand, problems the municipality experience should not be highlighted. The interest of the municipality is the top priority.

It is also important that the municipality publishes various bulletins (e.g., descriptions of investment opportunities) as well as produces directories and tourist leaflets. It is also a good idea for the bulletins to be sent to those people and organizations that can benefit from the information (e.g., tourists and investors). In addition, tenders should be widely advertised in the press in order to attract the largest number of bidders. All the above measures contribute to the positive image of the municipality.

Bureaucratic Requirements

Generally, each investor must navigate through a long and tedious bureaucratic procedure before investment requirements are fulfilled. It often takes many months to obtain all the necessary licenses, permissions, and approvals for the investment, and large bureaucratic obstacles often discourage investors. An increase in the ease of interacting with the bureaucracy will substantially increase the attractiveness of a given area. It is especially important that licenses and permissions are granted to investors without unnecessary delays, proving to the company how valuable their investment is to the community.

Establishing Enterprise Zones

Enterprise zones are areas allocated for industrial development, often oriented toward a specific branch of industry. Companies investing in enterprise zones enjoy a number of advantages, including the easing of

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some bureaucratic requirements and the granting of tax concessions (e.g., companies in the Oklahoma Enterprise Zone receive tax concessions of \$1,000 for each additional workplace created). Enterprise zones are managed by special companies created for this purpose. The efficiency of attracting investment to an enterprise zone depends to a large extent on the company that manages the zone. Developing a properly managed enterprise zone is a lengthy and difficult undertaking. If carried out correctly, it can also be highly profitable for the local community.

Providing Tax Concessions

Local governments are able, to some extent, to determine local taxes, especially those connected to real estate. Evidence shows that an appropriate tax policy can bring economically viable results as early as in the medium term. Although the municipality forgoes a percentage of current revenues by granting tax concessions, such a measure does attract investors. Investors open enterprises, create workplaces, increase demand, and eventually increase the tax base, thus contributing to an increase in the municipality's revenue. It is advisable for each municipality considering tax concessions to compare the total amount of revenue lost by granting tax concessions to companies that invest in their communities with the benefits from the long-term increase in the tax base. The latter often outweighs the former.

Correcting Problems with Infrastructure

Nonexistent or underdeveloped infrastructure—such as roads; sewage systems, telephone lines; and networks to supply water, gas, and electricity—is a disincentive for investors. There are, however, a few ways to overcome this problem. The municipality can develop the infrastructure by itself in order to attract investors (this can be a costly undertaking), it can issue bonds to raise funds specifically for this purpose, or it can deduct the costs investors incurred by developing the infrastructure from the enterprise's taxes.

Sales Departments of Local Governments

Another solution to promote entrepreneurship and attract investment is the creation of a special unit within the local government that performs the functions of a sales department. Its duties consist of providing comprehensive services for investors. It guides investors through the bureaucratic procedure, making sure that deadlines on the part of other agencies of the local government are met. The department also monitors the actual investment and provides other needed services. It is worth stressing that investors should feel they are taken care of. It is recommended that people working for such a unit should be communicative, efficient, and have strong negotiating skills.

Examples of Successful Schemes for Attracting Investors

Niepolomice. A small town with 7000 inhabitants, Niepolomice is located several kilometers from Krakow, a large urban center. The municipality gained fame after it attracted a major investment by the Coca Cola Company.

Initially, Coca Cola intended to open a plant in Krakow. However, negotiations between the company and Krakow's local government were substantially delayed after Coca Cola encountered a number of problems. Niepolomice took advantage of the situation and sent their representatives to persuade Coca Cola to invest in their town. They brought the company an attractive offer: a plot of land had already been allocated, and the bureaucratic procedures required for initiating the investment were simplified. After having shown such initiative, it was not surprising that Niepolomice succeeded in attracting Coca Cola to their municipality.

Plock. The case of Plock, a city with 100,000 inhabitants and a high rate of unemployment, is in many ways similar to the case of Niepolomice. The municipality managed to attract a well-known producer of jeans textiles, Levi Strauss, to open a production plant.

After experiencing a dramatic growth in sales in Poland, Levi Strauss decided to build a manufacturing plant in the country. The company first considered investing in Lodz, a large city with approximately one million inhabitants and a large number of textile companies. Levi Strauss hoped



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to locate its plant in one of the many industrial buildings that stood empty and were slowly decaying. The local government, however, demanded a high price for leasing or selling one of the buildings to Levi Strauss. The negotiations lingered on. When the government officers in Plock found out about the opportunity, they quickly offered a similar site for a symbolic price. Now Plock reaps the harvest of its action: employment increased by 200 people (the target is 700), numerous buildings are occupied and have been restored, and the municipality is collecting taxes from the enterprise.

